

OUTGOING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

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Ambassy PARIS

A-1522 April 15, 1952

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Reference is made to the Embassy's telegrams Nos. 5878 and 5891 of March 26 concerning the stated belief of several COCOM delegations that the US dollar is one of the most "strategic" items, and that failure to control it is a significant loophole in the control system. It is noted also that the Italian and United Kingdom delegates have inquired as to the US method of settling its trade deficit with the Soviet bloc, particularly with China.

The following discussion deals with the questions raised by the Italian and UK Delegations, and should not be regarded as a complete statement of the US position on the adoption of financial measures as a supplement to physical transit controls.

If the question of dollars as a strategic export is to be discussed, it is necessary to consider the balance of payments between the United States and the Soviet bloc. These data are set forth below separately for the European Soviet bloc and Communist China. For purposes of balance of payments consideration, attention should be given to the full figures for United States exports, including re-exports, and to general imports, not imports for consumption, the latter of which would include withdrawals from warehouses.

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TABLE I

Balance of Payments between the United States and the
European Soviet Bloc Countries, 1951
 (in thousands of dollars)

	<u>Credits</u>	<u>Debits</u>	<u>Net Balance</u>
<u>Current transactions</u>			
Merchandise trade.....	9,945 ^{1/}	63,569	-53,624
Travel.....	3 [/]	2 [/]	
Government expenditures.....	3,500 ^{4/}	5,100	- 1,600
Private remittances ^{5/}	-	12,500	-12,500
Interest on US Govt. credits.	4,500	-	+ 4,500
Income on private investments	-	200	- 200
Balance on current account...			-63,424
<u>Capital transactions</u>			
Repayment of US Govt. credits.			+ 1,200
Repayment of private short term claims.....			+ 1,000
Net securities transactions..			- 112
Net reduction in dollar balances.....			- 6,600
Balance on capital account...			- 4,512
Balance on all known transactions			-67,936

Source: US Department of Commerce

- 1/ Commercial shipments totalled only \$2,858,000. The difference of over \$7 million is accounted for by an estimate of the value of merchandise transferred to this area through gift parcel shipments.
- 2/ Known to be substantially less than \$400,000.
- 3/ Less than \$50,000.
- 4/ Very rough estimate; no direct information available. Does not include direct contributions to the UN.
- 5/ Chiefly to Poland and Hungary.

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It should be noted that roughly 70 per cent of total US imports (\$27.4 million) from the USSR in 1951 were furs. Under the ban imposed by Section 11 of the Trade Agreements Extension Act of 1951 on imports of certain furs, some 35 to 40 per cent of 1951 shipments will be eliminated in 1952. Regarding US imports from Czechoslovakia which in 1951 amounted to \$22.4 million, such imports have been drastically curtailed because of special circumstances existing in our relations with that country. This situation might, however, be changed at any time.

The following tabulation summarizes the balance of payments with Communist China.

TABLE II

**Balance of Payments Between the United States
and China (ex. Formosa) 1951**
(In thousands of dollars)

United States exports	nil or unknown
United States imports	-46,487 ^{1/}
Travel (unknown but insignificant)	-
Private remittances	(-) 100
Income on investments in United States	(-) 900
Net transactions in securities	+ 252
Net movement of short term claims and liabilities	= 200
Balance on all known transactions	-47,435

Source: US Department of Commerce

^{1/} Based on country of origin of goods, according to Customs regulations.

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The US Delegation is, of course, completely familiar with the Foreign Assets Control Regulations governing United States trade with and payments to Communist China. The large balance shown above is accounted for as follows.

When the US froze Chinese Communist assets in December 1950 there were sizeable quantities of Chinese Communist goods which had already left China and which were then in the hands of legitimate traders, payment having already been made to Communist China. Accordingly, the US Treasury Department followed a fairly liberal licensing policy until March 1951 to prevent undue hardship to these traders. In addition, Treasury freely licensed throughout the year the importation of four commodities needed by the US Government for the strategic stockpile (hog bristles, water fowl feathers and down, silk waste, and tungsten). None of these were purchased directly from China, the dollar payments accrued to some third country. In fact, some of these purchases were made in Western Europe, which suggests that in some cases European Soviet bloc middlemen might have received the resultant US dollar payments rather than Communist China.

The statistics on imports from Communist China are as follow:

<u>Total for year</u>	<u>\$46,487,000</u>
of which 4 stockpile items were	22,274,000
<u>January-June total</u>	<u>31,769,000</u>
of which stockpile	10,735,000
all other	21,034,000
<u>July-December total</u>	<u>14,718,000</u>
of which stockpile	11,539,000
all other	3,179,000

The large imports of "all other" items in the first half of the year reflects the liberal Treasury licensing policy during the first three months of 1951. The \$3 million "all other" figure in the second half represents the residue of licenses issued during the first quarter and hardship cases.

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The Treasury Department has taken blocking action against a number of European banks whose facilities were being used to carry on dollar transactions for the benefit of Communist China. Treasury is prepared to take similar action in any other cases of this sort which may arise. The cooperation of European governments in developing and dealing with such cases would of course be welcomed.

There is a presumption that a good portion of the total balances shown above on all known transactions is available to Soviet bloc countries for financing subversive activities and illegal trade, but there is no conclusive evidence regarding how much of the total might be used thus. A portion of the total undoubtedly is used to finance commercial purchases in Latin America and elsewhere. The USSR may have the gold to purchase any amount of US dollars it needs in free currency markets, but it should be remembered that practically every country of the Free World, particularly the COCOM countries, has some form of export controls which prevent or limit Soviet bloc countries from purchasing strategic commodities with US dollars or any other currency. The effectiveness of these controls would, of course, be enhanced by physical controls over transit trade and transshipments in certain free ports of continental Europe.

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Clearances:

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